

VZCZCXYZ0028
PP RUEHWEB

DE RUEHSK #1234/01 3351403
ZNY CCCCC ZZH (CCY ADX540FC3 MSI6578 425A)
P 011403Z DEC 06
FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC PRIORITY 5383
INFO RUEHZN/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0064
RUEHCV/AMEMBASSY CARACAS PRIORITY 0029
RUEHBS/USEU BRUSSELS PRIORITY
RUEHVN/USMISSION USOSCE PRIORITY 1358
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK PRIORITY
RHMFISS/HQ USEUCOM VAIHINGEN GE PRIORITY

CONFIDENTIAL MINSK 001234

SIPDIS

CORRECTED COPY (TEXT)

SIPDIS

E.O. 12958: DECL: 12/01/2016

TAGS: [PREL](#) [PGOV](#) [ECON](#) [CH](#) [VE](#) [AJ](#) [IR](#) [BO](#)

SUBJECT: LUKASHENKO'S NEW FOREIGN POLICY: A METHOD TO THE MADNESS

REF: A. MINSK 1184
[B](#). MINSK 1220
[C](#). MINSK 1212
[D](#). MINSK 794
[E](#). MINSK 787
[F](#). MINSK 1188
[G](#). MINSK 1102

Classified By: Ambassador Karen Stewart for reason 1.4 (d)

Summary

[11.](#) (C) Belarus' rocky relationship with Russia has forced the isolated country to pursue a different course in its foreign policy. The GOB has ratcheted up its efforts to strengthen ties with countries like Iran, Venezuela, Azerbaijan, and China over the past year. Belarus is attempting to diversify its energy supplier3: deeper ties with energy-rich countries could help Belarus minimize the effects of looming economic problems with Russia in the medium to long term. However, the regime's only salvation from economic troubles in the short term is Russia's continued political support and economic largesse. End
Summary.

Five Possible Pillars of Belarus' New Foreign Policy

[12.](#) (C) On October 19, President Lukashenko announced that Belarus is developing a new foreign policy, but Lukashenko and his government have been vague on the details. We have spoken to a number of prominent political and economic analysts, informed journalists, diplomats, and GOB officials on the possible underlying themes of Belarus' new foreign policy. Most Belarusian analysts believe that Lukashenko is genuinely seeking to change the course of Belarus' foreign policy. The regime appears to have based its more aggressive approach on the following five pillars: greater economic independence from Russia, diversification of energy suppliers, new export markets and limited foreign investment, no economic sanctions from the West, and possibly the active formation of an anti-West block of nations.

Greater Economic Independence From Russia

[13.](#) (C) In a rare moment of candor, MFA Counselor in the Americas Department Andrey Rzhevskiy told Pol/Econ Chief on

November 9 that his government has grown weary of Russia's desire and ability to hinder Belarus' economic development. Referring to the possibility that Russia could raise gas prices for Belarus up to USD 140 per thousand cubic meters (tcm) if it refuses to sell at least half of the gas transit company Beltransgaz to Russia (ref A), Rzheusskiy noted that "a country's partners are never truly permanent, only national interests."

¶4. (C) Economists stress that Belarus is desperate to find alternative energy supplies and export markets because the Belarusian economy remains too susceptible to the whims of the Kremlin. For example, Russia supplies Belarus with 98 percent of its natural gas. A gas price increase from USD 47 tcm to USD 140 per tcm would force Belarus to increase its spending on gas from USD 980 million per year to USD 2.94 billion per year, which represents over seven percent of Belarus' USD 40 billion economy. Irina Tochitskaya from the Institute for Privatization and Management said during the annual German-sponskred Minsk Forum that an increase in gas prices of up to USD 200 would reduce GDP growth by 14 percent over the next half decade (ref B).

¶5. (C) Russia also supplies 96 percent of Belarus' oil at extremely reduced prices. Over 40 percent of Belarus' exports are refined oil and oil-based products. If Russia were to minimize or eliminate oil subsidies to Belarus, GOB officials and economists alike tell us that Belarus' economy would immediately collapse. Moreover, slightly less than 40 percent of Belarus' exports are destined for Russian markets, and Moscow has recently enacted import restrictions on Belarusian sugar and candy. Finally, economists Sergey Zhabanov and Yaroslav Romanchuk told Ambassador on November 17 that within two to three years of Russia's entry to the World Trade Organization (WTO), Belarus will be cut off from cheap energy supplies and favorable terms of trade with its eastern neighbor (ref C).

¶6. (C) The apparent willingness of Russia to use its powerful economic levers to cause significant discomfort for Lukashenko has forced the president to intensify his efforts to weaken Belarus' dependence on Russian politics and the Russian economy. Analyst Andrei Federov commented that Lukashenko's seemingly unmovable position on Beltransgaz negotiations -- instead of stepping back from Lukashenko's earlier asking price of USD 5 billion, he recently stated Beltransgaz is worth USD 10 to 12 billion -- demonstrates his resolve to engage in a game of chicken with Russia. In a possible attempt to minimize tensions with Russia, Belarusian Foreign Minister Sergey Martynov noted during the November 28 CIS Heads of State Summit in Minsk that Belarus is ready to establish a Beltransgaz-Gazprom joint enterprise by the end of the year (septel). However, analyst Valeriy Karbalevich stressed that Lukashenko personally has little to gain and everything to lose by giving up control of Beltransgaz and thus predicted the Belarusian leader would again default on assurances made to Putin. Moreover, Rzheusskiy and analysts maintained that Russia is not intent on fomenting political instability in Belarus (ref D) -- if it was, Russia would focus on subsidized oil supplies to Belarus.

Diversification of Energy Suppliers

¶7. (C) Independent news reported on November 22 that Lukashenko again instructed his key aides to intensify efforts to secure energy deals with Iran, Venezuela, and Azerbaijan, as "next year promises to be catastrophically difficult for Belarus." Rzheusskiy admitted that his government is ill prepared for a gas price increase to USD 140 per tcm or more and will continue to press Russia to maintain "brotherly" prices for Belarus. However, Rzheusskiy stressed that Belarus is simultaneously attempting to wean the Belarusian economy off of Russian subsidized energy supplies, claiming that Belarus' sovereignty is at stake.

¶8. (C) Lukashenko warmly received Venezuelan President

Chavez in Minsk on July 24, and both leaders touted their agreement to explore the possibility for Belarusian companies to extract Venezuelan crude oil and gas at discount prices and sell it on the world market, including to the United States, at world market prices (ref E). This scheme would provide Belarus the necessary additional revenues to purchase Russian oil or gas at higher prices. The Belarusian president received Azerbaijani President Aliyev on October 17, and Lukashenko expressed sincere hope that Belarus and Azerbaijan would reach a similar oil extraction deal or an agreement to build an oil pipeline between the two countries.

Lukashenko called on Iranian President Ahmadinejad in Tehran on November 5, and high on the Belarusian leader's agenda was the possibility to extract and sell Iranian oil and gas on the world market. Most recently, Lukashenko met separately with his Ukrainian and Azerbaijani counterparts on the margins of the CIS Summit to discuss energy cooperation, apparently without the involvement of Russia.

¶9. (C) Several of Lukashenko's ministers and aides, including Prime Minister Sidorskiy, Security Council State Secretary Viktor Sheiman, National Bank President Peter

SIPDIS

Prokopovich, and State Control Committee Chair Zyanon Lomat have followed up with these countries to accelerate negotiations, but thus far we have not seen any evidence that Belarus' new partners have agreed to its terms. Aliyev, for example, implied during his October 17 press conference in Minsk that Belarusian companies would have to participate in a regular tender to win crude oil extraction rights in Azerbaijan. Furthermore, economists note that the transit costs of importing oil or gas from any of these countries could make this option prohibitively expensive for Belarus.

New Export Markets and Limited Foreign Investment

¶10. (C) Lukashenko repeatedly stressed during his annual remarks to Belarusian ambassadors assembled in Minsk in August that the number one priority of his emissaries in the upcoming years is to promote Belarusian goods and services in any and all countries. Senior GOB officials are increasingly praising Belarus' promising trade relations with China, Venezuela, Iran, Vietnam, Cuba, Malaysia, South Africa, and Azerbaijan. Although the latest statistics thus far reflect that Belarus' new partners represent only a fraction of Belarus' trade with Russia or even the EU, expanding Belarusian exports to and attracting foreign investment from these countries appear to be more realistic goals for Belarus than diversifying its energy suppliers.

¶11. (C) Key Belarusian exports remain refined oil and oil-based products, fertilizer, metals, heavy machinery and equipment, and military technology. Our analytical and GOB contacts agree that except for oil-based products, Western markets are generally not interested in Belarus' lower quality goods. However, the GOB is successfully promoting its relatively few competitive companies in developing markets and in those countries that share the regime's political orientation and views. Economic analyst Leonid Zaiko pointed out that Belarus and Iran recently signed contracts worth USD 350 million and agreed to look for ways to reach USD 1 billion in bilateral trade. Political analyst and journalist Aleksandr Alesin claimed that Venezuela's agreement to purchase USD 1 billion worth of military technology and equipment from Belarus is "very plausible" over a five to seven year period, as Belarus' military-industrial complex is advanced enough to suit the needs of developing countries.

¶12. (C) Belarus, to some extent, is also seeking to increase foreign investment from its new partners. During Lukashenko's December 2005 trip to Beijing, he announced that China is ready to provide up to USD 1 billion in loans for specific economic projects in Belarus. This year Belarus announced its efforts to attract Iranian and Chinese banks to open up branches in Belarus. Zaiko added that Iran will likely accept the GOB's invitation to establish at least one

bank in the country, as Iran is participating in Minsk's lucrative housing development.

No Economic Sanctions from the West

¶13. (C) Analysts ironically note that one of Lukashenko's most noteworthy achievements has been to keep the West, particularly the EU, from enacting costly economic sanctions against the regime. When it appeared that the EU was set to take the final step to suspend trade preferences (GSP) for Belarus in October, Lukashenko dispatched his trusted Deputy Head of Presidential Administration Natalia Petkevich to key EU capitals to demonstrate Belarus' "progress" in implementing the ILO's recommendations for improving labor conditions in Belarus (ref F). EU officials and diplomats tell us that the GOB delegation presented a poor case for postponing the decision on GSP suspension, but the GOB's appeals were well timed to support the position of those EU member states that opposed the measure for other political and economic reasons. The EU could take up the issue again in March 2007.

¶14. (C) According to most political and economic analysts, Belarus has successfully demonstrated that the EU is reluctant to allow political concerns to seriously constrain the growing trade relationship with its eastern neighbor. Zaiko pointed out that the EU is Belarus' second largest trading partner after Russia, accounting for some 30 percent of Belarus' foreign trade, and Belarus has proven to be a stable transit country for trade between the EU and Russia. Political scientist Vyacheslav Pozdnyak observed that, notwithstanding the visa ban and asset freezes, the EU's Belarus policy is proving to be "all bark and no bite, and Lukashenko does not mind the barking." Analyst and freelance journalist Roman Yakovlevskiy added that if it were not for the new EU member states that border Belarus, the EU would have already lost its focus on Belarus.

¶15. (C) Commentators cited the EU's November 21 announcement of a "Shadow Action Plan" for normalizing political and trade relations with Belarus as the latest example of the EU's "incoherent policy." Yakovlevskiy explained that the GOB has yet to comply with the four areas of political reform proposed earlier by the EU; any expectation that Lukashenko would take seriously the 12 areas listed in the latest proposal is absurd. When Pol/Econ Chief suggested to a group of independent political analysts that the real intent of the EU's proposal was to spur interest in democratic change among Belarusian people, the observers remained skeptical but noted Belarusians' opinion could change if the GOB proved incapable of shielding them from significantly higher g!s prices next year.

¶16. (C) Despite Belarus' perceived successes with the EU, most analysts agree that Lukashenko is fully aware that the United States is a much harder nut to crack. That said, the GOB seeks to at least keep the USG from taking measures to further constrain U.S.-Belarus trade -- e.g., securing the renewal of the Jackson-Vanik waiver and the removal of language referring to economic sanctions from the Belarus Democracy Reauthorization Act draft legislation -- without addressing human rights concerns. Key members in Lukashenko's administration have stepped up their attempts to engage in a "substantive dialogue" to normalize bilateral relations, but the GOB routinely qualifies that such a dialogue would be on the basis of "mutual respect" (ref G). MFA Counselor Rzheusskiy strongly suggested to Pol/Econ Chief that the USG will have to accept that Belarus holds fundamentally different views on political issues, but noted such differences should not spill over into bilateral trade.

Active Formation of an Anti-West Block?

¶17. (C) Yakovlevskiy and several other experts with whom we have spoken are convinced that Belarus is actively working to reinvigorate the Non-Aligned Movement (NAM) and set up

Lukashenko as the eventual successor to Cuban leader Fidel Castro as the next "Papa" of the anti-West block. Zaiko noted that Lukashenko is the ideal anti-globalist leader -- he is young (51 years old), energetic, bold, and he sits at the helm of a growing, stable (for now) economy in the heart of Europe. In this respect, some analysts assert that Lukashenko's highly publicized relations with countries such as Venezuela and Iran are as much political as they are economic in nature. Pozdynak agreed with this assessment but noted that Belarus' foreign policy is founded more on self-preservation than on ideological interests.

Comment

¶18. (C) We agree with our contacts' assessments that Belarus' extremely tense relationship with Russia has prompted Lukashenko to strengthen political and economic ties with those countries prepared to tolerate contact with him. However, if Lukashenko again refuses to sell at least half of Beltransgaz and Russia follows through on its promise to significantly raise gas prices for Belarus next year, Lukashenko's ardently statist approach to domestic and foreign policy will not likely save the country from tough economic times. Belarus remains extremely dependent on Russian energy supplies and markets, and deeper relationships with energy-rich countries would only partially mitigate the effects of economic pressure from Russia in the medium to long term. Thus, despite tough talk about the need for greater independence, Lukashenko's only escape from crisis in the immediate future appears to be the Kremlin's continued willingness to prop up the fragile economy.

Stewart